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Intergovernmental Working Group of
Experts on International Standards
of Accounting and Reporting
Ninth session
5-15 March 1991
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS NINTH SESSION

Draft report

Addendum

Rapporteur: G. G. M. BAK (Netherlands)

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of accounting and reporting issues identified during the eighth session

4. Organization of the accounting profession and the role and qualification of auditors

1. At its 4th and 5th meetings, on 6 and 7 March 1991, the Group considered the report of the Secretary-General on the organization of the accounting profession and the role and qualification of auditors (E/C.10/AC.3/1991/7). There was much discussion about the term "accountant", which had different meanings in different countries. A distinction was drawn between accountants and auditors: both belonged to the accounting profession but not all accountants were auditors. The Group was reminded that there were many accountants in government service and that although they might not belong to professional bodies, they were qualified accountants and had an important role to perform.

2. One expert suggested that in view of the closeness between accounting and auditing in the private sector and in the government sector, including the public

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sector, it would be useful if any new report on the subject were to include that particular aspect.

3. A number of experts were of the view that the report was very useful in that it was an informative summary of how the accounting profession could be organized. It would be helpful both to countries setting up professional bodies and to those needing to improve them. One expert raised the question of the relationship between the objectives of the profession and its education and training requirements. He asked if, based on the reports, the Group could agree on a minimum list of professional requirements. One said that four ingredients were necessary for an effective profession: (1) accounting and auditing standards, (2) a body of qualified people, (3) a professional body and (4) a standard-setting body. As far as he was concerned, the main international organizations (the International Accounting Standards Committee (IASC), the International Federation of Accountants (IFAC) and the Intergovernmental Working Group) were concerned only with the first one. He asked who was going to help the third world in the education of accountants and in developing the accounting profession by setting up standard-setting and professional bodies. The mandates of those organizations did not provide for such help and, since there was no plan of action, a serious vacuum existed. The observer for a large group of countries and the observer for the Fédération internationale des experts-comptables francophones (FIDEF) said that accounting was a vital element for development and that if the third world was to develop, it would need to establish private professional bodies. Indeed, the development of the profession was inseparable from the development of developing countries, since those that had scarce resources had to be able to account for them. The survey of accounting needs in Africa, reviewed by the Group in 1990, should be more than a theoretical exercise. The ways and means had to be found to set up a professional institute in each country.

4. The observer for the European Community raised the question of who should undertake such actions, the future professionals themselves or government external donors. An expert from a country in transition replied that in setting up the profession and revising accounting regulations, a new institute might find it very difficult to train professionals and set standards without some assistance from the Government and/or international organizations.

5. One expert explained how the transformation of the accounting profession was proceeding in his country. Important aspects of the new accounting law that had recently been submitted were that higher qualifications were required (which implied familiarity with international accounting principles, standards and practices); that, in contrast to the previous situation, which had demanded strict compliance with highly detailed accounting regulations, sound business judgement and responsible and prudent management were currently required; and that creativity in the development of an independent accounting policy for the company was called for. Under the new law, a self-organized professional body or bodies would guarantee the representation of the interests of the profession. Through the National Accounting Board that was to be set up, the law permitted the profession to take an active part in the work of regulation and in monitoring implementation. A training programme for some 100,000 accountants had been established in his country. Through ensuring clear external social control, the disclosure

requirement of the annual report would also raise the prestige and social standing of the profession. The extension of the mandatory audit requirement to a range much wider than before would also effect a change in the composition of the profession.

6. One expert said that the report should be improved by the inclusion of new information, such as recent developments in the accounting profession in China, the link between public and private accountants and the role of accounting in economic development.

7. Concern was expressed about auditors and their independence. Since many external users were totally dependent on their opinions, extreme care should be taken to preserve the independence of auditors. Among the possible safeguards mentioned were restricting individual client fees to 5 per cent of total fees, prohibiting auditors from giving management advice to their clients and eliminating the "limited" liability of auditors where that was the rule.

8. One expert said that, contrary to the implication in paragraph 91 of the report, there was no conflict between the independence of the auditor and legislation regulating the certification and supervision of the auditor. Such legislation could, instead, be a prerequisite for ensuring the integrity and independence of an auditor.

9. In concluding the discussion, an expert from a developing country said that it was important to reduce the gap in the profession in the third world and to raise professional standards. That would require external assistance. He did not understand how such assistance could possibly interfere with the independence of the profession. He saw no contradiction between technical assistance and autonomy. Furthermore, the Group had wanted a comprehensive accounting programme for years and while strong programmes had been developed in many other fields, technical assistance in accounting remained piecemeal and peripheral.

10. The Group was of the opinion that the discussion on the issue had been fruitful and enlightening. Distribution of the report of the Secretary-General to interested parties was encouraged. The question of technical assistance should be taken up in discussing the mandate of the Group.

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Draft report

Addendum

Rapporteur: G. G. M. BAK (Netherlands)

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of accounting and reporting issues identified during the eighth session

2. Accounting for environmental protection measures

1. At its 5th and 6th meetings, on 7 March 1991, the Group discussed accounting for environmental protection measures, as contained in the report of the Secretary-General (E/C.10/AC.3/1991/5). In introducing the item, the representative of the United Nations Centre for Transnational Corporations mentioned how the Group's previous report had sparked interest among other groups and institutes. There also appeared to be a growing awareness among securities regulators and business executives. The observer for the Fédération international des experts-comptables francophones (FIDEF) stated that developing countries were interested in enjoying a certain quality of life rather than being depots for the developed world's industrial wastes. Unfortunately, such quality was hard to

achieve because they did not have sufficient resources to set up control mechanisms or to monitor pollution. Therefore, developing countries were more dependent on international standards for protection. In the area of accounting, financial statements needed to begin to reflect the environmental risks and latent liabilities present in some business operations. More environmental information in financial statements would allow investors to choose less polluting investments. Where environmental information could not be quantified, it should at least be disclosed in the notes.

2. The observer for the International Confederation of Free Trade Unions (ICFTU) found the report to be excellent and the information disclosure required to be basic. Moreover, the Group had agreed at its eighth session on information disclosure necessary in the board of directors' report. She asked whether, in terms of environmental contingent liabilities, existing international standards covered their recognition and measurement. In responding to her question, the Secretary-General of IASC said he found the report useful and valuable. Regarding the rules for recognizing contingent liabilities, they were contained in IAS 1, 5, 10 and 11. However, the International Accounting Standards did not deal with information disclosure in the board of director's report since IASC restricted itself to financial statements themselves. He endorsed the view that at the present time it might be better to let things evolve and encourage best practices rather than laying down rules.

3. The expert from Brazil informed the Group that his country would act as host for the United Nations Conference on Environment and Development in 1992. If the Group wanted to encourage best practice among the preparers of financial statements, it could prepare a new report especially for that meeting in order to make colleagues aware of the issues. It would be a unique opportunity for the profession to be heard. He was of the opinion that, while formulating rigid rules should be avoided, some formulation of recommendations was necessary. Another expert said that some developing countries needed guidance now. For example, in his region there were serious environmental problems and they would have to be considered in the financial statements of both transnational corporations and domestic enterprises. The problem of environmental contingencies would be acute, whereas previously they had not existed to the extreme extent as had resulted from the Gulf war.

4. One expert reminded the Group that it had agreed at its eighth session that environmental protection measures were an important matter. The new review of industry practices had revealed that it was possible to segment environmental expenditures, current and capital. He noted that some enterprises had also experimented with resource-based accounting, which allowed them to monitor the impact of their operations on the environment. Enterprises also produced from time to time special purpose reports on the environment, since there were other interested parties in addition to financial users. However, despite new research and review, he wanted to refrain from issuing rigid rules. He suggested that the Group should continue to review the content of the board of directors' reports.

5. Another expert questioned whether the segmentation of environmental expenses was really as feasible as suggested in the report. He noted the presence of such words throughout the text as "estimates", "judgement" etc. The resultant amounts

were of a soft character, and so it was better at this point to leave it open to enterprises to do what was appropriate. Another expert responded that accountants always had a problem with estimates and the Group should not dwell on it. The important thing was to introduce the concept of "environmental accountability" and have environmental costs appear in board of directors' reports, financial statements and the auditors' reports.

6. The observer from FIDEF noted that the Group was an intergovernmental one and that while self-regulation was desirable, the Group should give some guidance in this area. Recommendations were needed both for the board of directors' report and the notes to financial statements. While IAS 1, 5, and 10 might be sufficient for normal contingent liabilities, he was not sure they were specific enough to deal with environmental liabilities. A number of experts from developing countries spoke of ensuring that companies provided a certain minimum information and that the recommendations should go beyond those of the eighth session. It might be advisable to split the recommendations into those that were accepted and those requiring further consideration.

7. Another expert stated that it was necessary to give a true and fair view of operations in financial statements and that they should correctly evaluate environmental measures. The report demonstrated that this evaluation was practicable. He favoured issuing conclusions regarding information disclosure in the report of the board of directors, as outlined in the report. However, he was hesitant on the question of contingent liabilities and thought it would be better to return to it at the ninth session after more review. A country observer related how the Group's previous report had stimulated a great deal of interest in his country and that it was not perceived as final. He said the Group needed to express its view on the current report in order to encourage others to start or continue work in that area.

8. The Group decided to leave the recommendations section of the report (part IV) in its entirety but to change its title to "Conclusions for consideration of Governments and interested parties". The text of paragraphs 64, 66 and 67 was amended, changing the "shoulds" to "coulds" so that the conclusions took on the quality of items to be considered rather than requirements.

9. Thus, the conclusions of the Group regarding the issue of accounting for environmental protection measures read as follows:

Conclusions for consideration of Governments and interested parties

10. The following are items that could be considered by the board of directors to be included in their report/management discussion in order to deal with relevant environmental issues:

(a) The type of environmental issues that are pertinent to the enterprise and its industry;

(b) The formal policy and programmes that have been adopted by the enterprise with respect to environmental protection measures (if no formal policy and programmes exist, it should be stated);

(c) The improvements in key areas that have been made since the introduction of the policy, or over the past five years, whichever is shorter;

(d) The environmental emission targets that the enterprise has set for itself, and how the enterprise is performing relative to those targets;

(e) The extent to which environmental protection measures have been undertaken due to governmental legislation and, if so, the extent to which governmental requirements (for example, a timetable for the reduction of emissions) are being achieved;

(f) Any material proceedings under environmental laws; management should disclose a known potentially significant environmental problem unless it can objectively conclude that the problem is not likely to occur or, if it does, that the effect is not likely to be material;

(g) The financial or operational effect of environmental protection measures on the capital expenditures and earnings of the enterprise for the current period and any specific impact on future periods;

(h) When material, the acutal amount charged to operations in the current period, together with a description of the environmental measures to which they relate. This amount might be subdivided into the following general ledger accounts:

(i) Liquid effluent treatment;

(ii) Waste gas and air treatment;

(iii) Solid waste treatment;

(iv) Analysis, control and compliance;

(v) Remediation;

(vi) Recycling;

(vii) Other (for example, accidents, safety etc.);

(Where it is not possible to segregate the amount that relates to environmental protection measures, this fact should be stated.);

(i) When material, the actual amount capitalized during the current period, the accumulated amount capitalized to date, and the period for amortizing, or writing off, such amounts, together with a description of the environmental measures to which they relate. This amount might be subdivided into the categories listed in (h). (Where it is not possible to segregate the amount that relates to environmental measures, this fact should be stated.)

11. As accounting policies are normally described in the notes to the financial statements, the following environment-related accounting policy notes could be included therein:

(a) Recording liabilities and provisions;

(b) Setting up catastrophe reserves (through appropriations of retained earnings);

(c) Disclosure of contingent liabilities.

12. As contingent liabilities are normally disclosed, if material, in the notes to financial statements, the following environment-related items could be included therein:

(a) Liabilities, provisions and reserves that have been set for the current period, and amounts accumulated to date;

(b) Contingent liabilities, with an estimate of the amount involved, unless the event is not likely to occur. The possible loss should be quantified to the extent reasonably practicable. If the possible loss cannot be reasonably calculated, a description of the contingent liability should continue to be furnished and the reason should be given why an estimate of the amount of the loss cannot be made. Completion of a feasibility study of remediation costs may be normally considered as the earliest date at which a reasonable estimate of the liability is possible.

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Addendum

Rapporteur: G. G. M. BAK (Netherlands)

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of accounting and reporting issues identified during the eighth session

3. Accounting and reporting during and after the transition from State to private enterprises

1. At its 7th and 8th meetings, on 8 March 1991, the Group had before it the report of the Secretary-General containing an overview of accounting and reporting during and after the transition from public to private enterprises (E/C.10/AC.3/1991/6). In the opinion of many of the experts, the report had achieved its modest aim of summarizing for the Group the objectives of privatization and the economic, financial and social conditions which influenced the choice of various financing techniques. That background information had set the stage for the discussion of accounting and valuation problems that could arise during the process. The representative of the Centre suggested that the study of those problems could be enriched through case studies of countries that had implemented such programmes: during the session, a number of experts had informed

the Group about the experience of their countries and suggested that they be included in such case studies. It was mentioned that a distinction should be made between privatization of an entire economy or of a large part of an economy and privatization of one or more undertakings within an existing market economy.

2. One expert, in commenting on valuation methods, said that they should be considered as "objective" rather than "subjective", since they should be based on scientific criteria. He wanted to know who should appraise and evaluate enterprises to be privatized. In some countries, the task was given to special banks; perhaps it should be given to special professionals. The observer for the International Assets Valuation Standards Committee defined the "value of assets" as the amount a business would lose if it were deprived of those assets. He said that the value of property was equal to the sum of the value of land plus the gross replacement value of plant and equipment minus obsolescence. However, the appraiser must also take into consideration the profitability of the enterprise.

3. Another expert was of the opinion that the overriding method of valuation was the present value method since the entire operation had to be valued, not just the assets. The subsection of the report on accounting issues had underestimated the difficulties since the use of the present value method was closely linked with management accounting. In order to use the present value method, a good management system had to be in place. Therefore, many accounting problems arose because of the lack of good systems to track expenses and revenues. That lack ultimately made it difficult to value the operation using the present value method. Therefore, there was a strong link between valuation and management accounting systems.

4. A number of experts pointed out that in order to sell an enterprise to either domestic or foreign investors, it was necessary to have good accounting information. It was noted that accounting problems often started at an earlier stage, when a public department became a public corporation. Therefore, any future work on that topic should take into consideration the restructuring of bookkeeping accounts and systems and the preparation of accounting information.

5. The observer for the International Confederation of Free Trade Unions (ICFTU) said that valuation of an enterprise was particularly difficult when that enterprise had to be restructured and often the valuation depended on local economic conditions. The valuation of enterprises in the former German Democratic Republic had been affected by the economic situation after unification with the Federal Republic of Germany. Many such enterprises were not competitive, could not be restructured and would be closed. It was estimated that half the labour force would be unemployed as a result. The expert from Germany said that the privatization process was indeed under way in his country. A state-owned trust company, currently owned all the former kombinate and state-owned enterprises. Its task was to privatize, restructure or liquidate enterprises, which could not be run successfully under competitive conditions. To diminish the dilemma between privatization and restructuring, it was decided to give priority to privatization as soon as possible. The necessary restructuring would occur under the new private owner. Thus far, only 700 of the 8,000 to 10,000 enterprises had been sold. The privatization process was further complicated by the process of re-privatization: a general reassignment of property rights to the people whose property had

previously been expropriated. That task also included the restitution of enterprises to their former owners. Political priority was given to the restitution but, given the necessity to create employment through economic growth, restitution could be overruled. In that case, compensation had to be paid to the former owners. The number of requests for restitution amounted to about 12,000, about 3,000 of which had been settled. One interesting accounting problem had arisen in the case of a number of enterprises that had previously been expropriated and then merged with other enterprises. The task was to split off the assets and liabilities so that they could be reassigned. He agreed that the choice of valuation methods depended on the situation. It seemed, however, that the most important factor influencing the final selling price was bargaining strength.

6. Experts from developing countries raised a number of issues that were of concern to those countries that had undertaken privatization programmes or would do so. First, there was the question why should a Government sell profitable enterprises; secondly, who would buy unprofitable enterprises. Many enterprises had been in the private sector in the first place and had been taken over by the Government because they were not viable. It was doubtful whether anyone would want to buy them. Very often in order to sell them, the Government had to restructure them and reduce the labour force. A third issue was the high cost of such sales which, in some instances, ranged from 2.5 per cent to 13 per cent of the final sales revenues. The last question was how could the right price be set to avoid giving windfall gains?

7. One expert said that international organizations required the adoption of privatization programmes in some developing countries as a precondition for aid. Consequently, the Governments of those countries were forced to sell the profitable enterprises and were left with the unprofitable ones. That sometimes resulted in windfall gains to the private sector, while the Government faced continued deficits. It was obvious that guidelines were needed on when to privatize. Another expert said that there seemed to be an implicit assumption that only public enterprises ran at a deficit. That was not always true; in his country, only 50 per cent of the private enterprises were in deficit.

8. An expert from a developed country replied to a number of questions raised by experts from developing countries. In explaining why a Government would ever sell a profitable enterprise he noted that the existence of a profit did not necessarily indicate efficiency but could indicate the existence of a monopoly. In that case, the Government would need to ensure that there was some regulatory control after privatization. In some instances, the Government sold profitable enterprises because it felt that it should not compete with the private sector. With regard to the determination of the right share price, it was extremely difficult to pick the correct one and Governments were criticized if the price set appeared low in hindsight, but they would also have been criticized had the price been set too high and the share issue a failure. Where share offerings were large, the Government usually priced them conservatively in order to ensure that all the shares were sold. The cost of sales was sometimes relatively high because of the many steps Governments were obligated to take in order to make sure the process was fair.

9. Another expert said that consideration of the topic was very timely and that transition to a market economy should be accelerated. In his country, the privatization law had been implemented in 1990. However, it would take at least 100 years to sell state enterprises, owing to the lack of domestic savings. Therefore, foreign direct investment was needed.

10. The Group decided that work in that area should be continued and that it should be enriched by country case studies. The main objective of further study would be to clearly identify the accounting problems and to indicate how they had been or could be solved.

D. Further steps to be taken in relation to the development of the comprehensive information system

11. At its 8th meeting, on 8 March 1991, the Group considered further steps to be taken in relation to the development of the comprehensive information system. It had before it the report of the Secretary-General containing a description of the databases available in that system (E/C.10/AC.3/1991/8). A representative of the Centre described the overall structure of the Centre's information and database systems. The Group raised a number of questions about the number of user requests and the accuracy of information. The Centre's response with regard to the number and type of users is provided in the table.

Requests by category and type of requestor, 1990

	Requests made by													
	Governments		Intergovernmental organizations		Trade union organizations		Business organizations		Academic institutions		Media and public interest groups		Total	
	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage
Developing countries	375	51	18	5	31	15	25	12	149	22	94	24	692	27
Developed market economy countries	251	34	52	13	135	66	178	86	412	61	158	40	1 186	45
Eastern Europe	111	15	--	--	24	11	5	2	74	11	33	8	247	9
International organizations	-	-	320	82	18	8	--	--	41	6	106	27	485	18
Total	737	100	390	100	208	100	208	100	676	100	391	100	2 610	100

A dash (--) indicates that the amount is nil.

A hyphen (-) indicates that the item is not applicable.

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E. Accounting and reporting issues arising out of the future code of conduct on transnational corporations

12. At its 8th meeting, on 8 March 1991, the Group considered accounting and reporting issues arising out of the future code of conduct on transnational corporations. A representative of the Centre informed the Group of the latest developments in the negotiations on the code of conduct. There were two major concerns. First, the language of the text was considered by some to be outdated, since parts of it had been drafted many years before. Secondly, since the code would be in the form of recommendations that were not legally binding, the implementation process would have to be carefully reviewed. The negotiations were in the hands of the President of the General Assembly, who would soon be organizing informal consultations. If the code were endorsed by the General Assembly at its forty-sixth session, it would establish a framework for foreign direct investment. He noted that whereas trade was governed by the General Agreement on Tarriffs and Trade and financed by the International Monetary Fund (the Bretton Woods agreement), there was no instrument balancing the rights and responsibilities in foreign direct investment. He informed the Group that the latest developments in the code of conduct were contained in document E/C.10/1991/8.

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C. Identification of accounting and reporting issues for discussion on a priority basis during future sessions

1. At its 11th meeting, on 12 March 1991, the Group identified the following issues for discussion during its tenth session:

(a) Accounting issues arising during privatization, including individual country case studies;

(b) Preparation of the topic for the 1993 session on education, training and the development of the profession in developing countries and countries in transition.

2. The Group agreed that any further work on environmental accounting, particularly the review of information disclosure in the reports of boards of directors, should be included in the report on global developments.

F. Appropriate measures to give effect to the work of the Group

G. Renewal of the mandate and review of the objectives of the Group

3. At its 7th, 9th and 10th meetings, on 8 and 11 March 1991, the Group had before it the report of the Secretary-General entitled "Appropriate measures to give effect to the work of the Group: renewal of the mandate of the Group" (E/C.10/AC.3/1991/9). The Executive Director of the Centre reviewed the objectives of the Group and its accomplishments. Among the various achievements he mentioned were the preparation of a number of useful technical reports (on consolidation and segmentation, intangibles, pension costs and environmental accounting and the report of the board of directors), the issuance of Conclusions on Accounting and Reporting by Transnational Corporations and Objectives and Concepts Underlying Financial Statements, the review of the use of international standards, the survey of accountancy development in Africa and the support for countries in the process of standard-setting through workshops and task forces. Nevertheless, he realized that the Group wanted to make changes in order to increase its effectiveness. In his opinion, such effectiveness depended on the availability of adequate resources, the attendance of experts on a regular basis and the desire to facilitate a fruitful exchange of views. Despite the fact that much had been accomplished, there was still much to be done in the way of the implementation of international accounting standards. The Group might promote the use of international accounting standards by supporting technical cooperation projects in the area of training, education, organization of the profession and creation of standard-setting bodies. Such technical cooperation projects could best be undertaken in conjunction with other international organizations. What was needed was a comprehensive and well developed technical cooperation programme.

4. The energizer for the Organisation for Economic Cooperation and Development (OECD) said that the Group was unique in that it was the only intergovernmental body considering accounting and reporting issues. It had served a useful purpose and achieved a great deal. He was of the opinion that the Group's mandate should be renewed, provided that the focus of the work changed. The Group should continue its work, avoiding duplication of the work of other organizations. He suggested a shift in orientation from discussion of technical accounting issues to technical cooperation. He was also of the opinion that it was not appropriate for the Centre to do fundamental research. He suggested that the Group change the pace of its sessions: it should meet every two years and in alternate years conduct a workshop on particular problems or on the problems of a particular region. It was understood that all members would be invited to attend such meetings.

5. Another expert, speaking on behalf of a large group of countries, said that the Group had only just begun to accomplish two of its objectives: to serve as a forum for the consideration of accounting and reporting issues and to support national and regional standard-setting. He stressed the importance of the Group, which was the only global intergovernmental body; others were either regional or non-governmental. Because the work of the Group was unique, it had more impact on developing countries since they relied on it when formulating their own standards.

With regard to the suggestion about alternating regular meetings with regional ones, he said that the Group had yet to hold the two regional meetings in Africa that had been agreed upon at the eighth session. He recommended meeting annually, but reducing the duration of the session to one week. He said that developing countries needed to participate in that forum on a regular basis because there was so much to be done in developing countries with regard to the development of standards. In addition, the topics that were of most interest to developing countries had yet to be successfully dealt with by the Group, including foreign currency translation and transfer pricing.

6. A number of experts from developing countries suggested that if regional meetings were deemed desirable, the Group should consider participating in the annual meetings of regional accounting associations. Using those regional meetings as a forum would be both cost-effective and the best way to have an impact on the region. They wanted to retain the annual session because they needed a global forum in which issues of a global nature could be discussed. They said that the United Nations was the proper forum and it should continue to be the focus of attention for developing countries. For other regions, such as that covered by OECD, the need for the United Nations was not so great; for developing countries, the United Nations was critical. Particularly important was its ability to conduct research in the areas of special interest to them. Activities should be expanded to include technical assistance in the area of standard-setting.

7. Another expert agreed that the mandate should be renewed. The Group should continue to consider accounting standards and to help countries in their use. He was of the opinion that one year might not be a significant time period when considering national accounting developments. Another expert said that the Group was the only intergovernmental group and it had a number of achievements to its credit. He wanted to retain the annual format because a number of countries were undergoing significant economic reforms, which had implications for accounting.

8. An expert from a developing country stressed that the intergovernmental character of the Group gave experts in developing countries a basis for initiating accounting reforms. He said that research should be the point of departure for the Group's work and that there was still much to be done that was of special interest to developing countries. He said that "accounting standards" were not neutral and that the special needs of developing countries had to be incorporated. In addition, the Group should continue its vanguard role in certain research areas, and should concretize its technical cooperation.

9. One expert then summarized the discussion: firstly, there was unanimous support for renewing the mandate; secondly, all agreed that the Group was important because it was an intergovernmental group; thirdly, many countries had special interests and the exchange of views was important to learn about developments in other countries; fourthly, there should be two types of sessions: regular sessions and those of a special nature, at which particular topics could be studied in depth.

10. An expert from a developed country said that since the Group was intergovernmental, its coverage was broader than that of other groups and its work complemented the work of other groups. The activities of non-governmental bodies

such as the International Accounting Standards Committee (IASC) could not substitute for the work of the Group. While he supported the proposal to meet every year for one week, he was flexible and would support a session every two years with alternate meetings on specific topics.

11. The observer for the International Confederation of Free Trade Unions (ICFTU), as one of the long-standing participants in the meetings of the Group, spoke of the Group's unique focus. It dealt with accounting and reporting by transnational corporations from the perspective of both home and host countries. It was also concerned with the impact of transnational corporations on the national and international community; other forums were not. Therefore, when the Group considered an accounting practice, it had a wider range of users in mind. Frequently that perspective was added when the Group arrived at conclusions on a given subject (for instance, accounting for inflation or accounting for research and development expenses).

12. A number of questions were raised about the Uruguay Round, particularly concerning the proposals for mutual recognition of accounting credentials and the use of international accounting standards. If adopted, both could diminish barriers to trade and investment flows in services. Several members of the Group asked what role the Group could play in reviewing and/or implementing those proposals. The representative of the Centre explained that the proposals would probably appear as recommendations within the general framework agreement of the General Agreement on Trades and Services (GATS). However, once GATS was accepted, the mechanics for implementing mutual recognition and use of international standards would be left to the signatories. (The Group might wish to involve itself at that stage. It was decided that any decision to involve itself should be discussed in conjunction with the renewal of the Group's mandate.)

13. One expert from a developed country stated that the Group might not be the most effective one to take up the task. Other experts from developing countries stated that this Group was the only group that should be involved, owing to its intergovernmental character. Some experts from developed countries indicated that it would be difficult to consider the role of the Group in the matter during the current session because the question was not on the agenda.

14. The observer for the Fédération internationale des experts-comptables francophones noted the importance of the Group and the annual meetings to the developing countries, especially those that were at the initial stage of accountancy development. The Group provided the only opportunity to close the gap between countries with advanced accounting environments and those with less sophisticated environments. The annual exchange of views was fundamental to that process.

15. The Executive Director of the Centre intervened in the debate, noting that the main recommendation, that is, giving consideration to global and regional issues, could best be thought of as having an impact on the structure of the Group's future agendas rather than on the place or pace of meetings. He thought that it would not be possible to separate research from technical cooperation since if technical cooperation efforts were to be well designed, they had to be founded on research.

The Centre combined both research and technical cooperation and had a long-standing interest in the area of information disclosure.

16. After discussing paragraphs 36 and 37 of document E/C.10/AC.3/1991/9, the Group did not adopt the mission statement outlined in the report. Instead, the Group arrived at the following conclusions:

(a) The mandate of the Group should be renewed;

(b) In order to make the work of the Group more effective, it was desirable to extend the duration of the mandate from a three-year to a five-year period so that regular sessions and sessions on specific subjects or on the problems of specific regions could be held in alternate years;

(c) The Group's sessions should be shortened from nine to seven working days;

(d) There should be a shift towards technical cooperation, particularly to meet the needs of developing countries and countries in transition in the development of the accounting profession and standard-setting.

17. The Group also decided to hold regular sessions in 1992 and 1994 and sessions on specific subjects in 1993 and 1995. In 1993, training and education needs in developing countries and countries in transition would be discussed. Topics for other such sessions would be the problems arising from the transition from state to private enterprises and environmental accounting.

18. At the ___ meeting, on ___ March, the Group adopted a draft decision (E/C.10/AC.3/1991/L.5), entitled "Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting", which had been submitted by the Rapporteur.

H. Ways and means of improving education, research and practical training in the field of accounting and reporting in member States

19. The Group considered agenda item 3 (h) at its 12th meeting, on 14 March 1991. The Centre reported that it had not been able to raise funds to hold the two regional meetings in Africa which the Group had requested during its eighth session. The study on accounting needs in Africa reviewed by the Group during its eighth session had been published and included profiles of the accounting environment in 37 countries. The Group requested the Centre to continue its efforts to organize the meetings and to work with regional and national accounting bodies, as well as other international organizations and departments within the United Nations Secretariat. The Centre should report any progress to the Group at its tenth session.

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Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS NINTH SESSION

Draft report

Addendum

Rapporteur: G. G. M. BAK (Netherlands)

ORGANIZATION OF THE SESSION

A. Opening and duration of the session

3. At its first meeting, on 5 March 1991, the Executive Director of the United Nations Centre on Transnational Corporations spoke about the interrelationships between foreign direct investment, governance and international accounting standards. He noted that foreign direct investment had grown at an unprecedented rate during the 1980s and had surpassed the growth in exports and gross national product. Outflows of foreign direct investments amounted to more than $US 196 billion in 1989 and grew at an annual rate of 30 per cent from 1983 to 1989. However, only 17 per cent of those outflows had found their way to developing countries, an annual average of $US 29 billion. Ten countries accounted for three fourths of that amount. The unprecedented growth in foreign direct investments reinforced the need for a multilateral framework for foreign direct investment and raised anew the broader issue of governance in a world economy in which investment, trade, technology and financial flows were intertwined. Such a framework should include adequate international standards on information disclosure.

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